

Legislative Fiscal Bureau

Fiscal Note

HF 654 - Foundry Mold Sales Tax Exemption (LSB 1455 HV)

Analyst: Jeff Robinson (Phone: (515) 281-4614) (jeff.robinson@legis.state.ia.us)

Fiscal Note Version — New

Description

House File 654 creates a sales and use tax exemption for the sale and rental of core and mold making equipment, sand, and chemicals directly and primarily used by a foundry in the mold making process. The exemption is retroactive to July 1, 1997. The Bill as amended limits the tax refunds for the sand and chemical portion of the retroactive exemption to \$25,000 in total. The exemption for core and mold making equipment does not have a limit on retroactive tax refunds.

Assumptions

1. Without legislation, the Department of Revenue and Finance will continue to interpret Iowa's sales and use tax statutes in a manner subjecting foundry core and mold making equipment, sand, and chemicals to the 5.0% tax, and this interpretation will not be overturned in legal proceedings.
2. In 2003, Iowa foundries will expend \$17.2 million on core and mold making equipment, sand, and chemicals utilized in the mold making process.

This estimate is based on the U.S. Census Bureau's 1997 Economic Census estimate of national foundry material costs of \$12.2 billion with the following factors and assumptions:

- Iowa's foundry employment percentage is 2.0% of the national total, so Iowa's material usage is also 2.0% of the national total.
 - A growth factor of 4.0% per year is applied for the six years since 1997.
 - Core and mold making equipment, sand, and chemicals compose 4.7% of Iowa material costs.
 - An additional 18.0% is added to include portions of the foundry industry that are not included in the Census Bureau's foundry category. Those portions of the industry would also be eligible for the tax exemption and refunds.
3. Refunds of previous taxes paid and non-payment of back taxes due to the exemption will decrease revenues and increase refunds in FY 2004 by \$25,000 for sand and chemical refunds and \$795,000 for core and mold making equipment refunds.

Fiscal Impact

The sales and use tax exemption contained in HF 654 will reduce General Fund revenues by \$860,000 in FY 2004 and \$890,000 in FY 2005. Similar reductions will occur in future fiscal years.

Also, the retroactive application of the exemption will reduce General Fund net revenues in FY 2004 by an additional \$820,000.

The tax exemption will also impact those local governments with a local option sales tax. The exemption would only apply to sales subject to the retail sales tax. Sales subject to the use tax are already excluded from local option sales taxes. If 50.0% of annual sales are in the form of retail sales and take place in a local option jurisdiction, then the impact would be \$86,000 per year.

Sources

Department of Revenue and Finance
U.S. Census Bureau

/s/ Dennis C Prouty

March 24, 2003

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement is available from the Legislative Fiscal Bureau to members of the Legislature upon request.
